WAR ASSETS ADMINISTRATION
REGION 5
CHICAGO, ILLINOIS

OPERATIONS DIGEST

November 15, 1947

Prepared
by

Organization and Methods Division,
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November 15, 1947

Table 1
Operating Statement
Consumer & Capital Goods
January-October 1947

	End of Month Inventory $	Acquisitions $	Disposals $	Recovery Rate %
January	308,887,000	2,627,000	37,438,000	26
February	318,538,000	29,167,000	19,515,000	21
March	308,477,000	12,362,000	22,147,000	22
April	306,313,000	20,623,000	22,786,000	18
May	284,432,000	-1,145,000	20,732,000	14
June	274,975,000	23,954,000	33,407,000	11
July	177,716,000	-70,024,000	27,234,000	14
August	242,052,000	83,660,000	19,320,000	16
September	245,070,000	23,646,000	20,624,000	16
October	239,436,000	12,089,000	17,725,000	15

Inventories

Gross acquisitions in October amounted to $54 million of which $31 million consisted of owning-agency declarations plus a small amount of firmed inventory, while $23 million represented a bookkeeping transaction which resulted in an upward adjustment of the IBM inventory account. This $23 million consisted of property acquired in previous months, whose acquisition had not been recorded on inventory records. This unrecorded inventory had also been sold, and its sale recorded, in prior months.

On the other hand, the $54 million total gross acquisitions were offset by the elimination of duplicate listings of certain items of property, amounting to $41 million, from the IBM inventory. Other acquisition transactions also resulted in a $1 million net reduction in inventory so that, on balance, net acquisitions in October amounted to $12 million.

Disposals

Disposals in October ($17.7 million) were the lowest in the last 11 months. Reduced transfers to the armed forces under the JANMAT program accounted primarily for the lower level of total disposals in October as compared with August and September. Sales in October

($12.5 million) were slightly higher than in September and substantially higher than in August, but still 50% below average monthly sales in the first seven months of 1947.

Monthly sales in the August-October period averaged 63% below monthly sales in June and July. More than half of this decline was due to lower sales of scrap-electronic equipment in the August-October period. Significantly, machine tools--the region's largest single class of inventory--suffered the smallest relative decline in sales in the August-October period as compared with June and July.

It is also noteworthy that reduced sales to commercial buyers accounted for the full decline in monthly sales in August and September as compared with June and July. Sales to priority groups were, in total, slightly larger in August and September than in June and July.

Recovery Rate

Region V realized a 15% recovery rate on its sales of consumer and capital goods in October. Metals realized its best recovery rate (49%) in the last 11 months, while metal-working equipment, traditionally the region's highest income-producing sales section, had its second lowest recovery-rate (13%) on record.

The trend of recent months suggests that the region may have reached the lower limit on recovery rate. After declining gradually from the peak level (38%) of a year ago, the recovery rate has fluctuated around 15% in each of the past 4 months.

Targets

Region V's disposals attained only 35% of the $50 million October disposal-target set by the Zone office. October was the third straight month that Region V failed to meet its target and in each succeeding month the region has missed this target by a wider margin.

There is little chance that the region will reach its $40 million disposal-target in November. Sales for November probably will approximate the $12 million October sales and if the experience of recent months is repeated, other disposals will not be large enough to raise total disposals above $20 million. Only under one condition are November sales likely to exceed October sales by a considerable margin; namely, if final disposal negotiations are concluded in November on either of two large offerings which closed in October. One offering involved $12 million of iron and steel scrap while the other consisted of $16 million of troop-sleeping cars offered on a sealed-bid, national program.

Offerings

Inventory offered for sale in October amounted to $82 million, the largest in the last 3 months. Increased offerings of iron & steel scrap and of metal-working equipment accounted almost entirely for the $20 million increase in offerings from September to October.

A sample of fixed-price offerings which closed in recent months reveals the following results:

(1) No direct relationship exists between the number of days a sale runs and the percentage of inventory offered that is sold. In other words, longer sales have not been more successful than shorter ones.

(2) No relationship exists among different offerings between the number of catalogues circulated and the percentage of inventory offered that is sold. Moreover, over the past 3 months customer response to catalogue advertising has been poor. Only 1 sale has been secured for every 200 catalogues mailed, and if total catalogue cost is distributed equally over total number of sales made, catalogue cost per sale amounts to $8.

(3) The sales income realized from individual offerings has not varied directly with the amount of money spent for advertising the offering through catalogues. Some offerings, involving little expenditures for catalogues, have brought in far more income than other offerings which entailed substantially larger expenditures for catalogues. To some extent, this variation should be expected due to the vastly different kinds and qualities of merchandise sold by the region.

(4) Advance estimates of sales income from individual offerings have been consistently wrong. Almost invariably, the region has overestimated the income its offerings would bring.

Analysis of Sales

Region V's failure to reach its disposal targets in the past 3 months can be charged to several factors:

(1) Not enough inventory has been offered for sale. In none of the past 3 months did inventory on sale during the month come close to 50% of the total IBM inventory, and inventory available for sale at the regional sales outlets averaged daily in October only 7% of the total IBM inventory.

(2) Most regional offerings have been ineffective from the point of sales. Even if all firmed inventory available for sale in October had been offered for sale, the region would not, at its recent rate of sale, have sold enough to attain its $50 million disposal-target.

Analysis of 50 fixed-price offerings which closed in recent months discloses that one or two factors account primarily for this slow rate of sale: (1) over-pricing of goods, and (2) lack of customer demand for the products offered. However, in many cases "the lack of demand" can also be attributed to over-pricing since these offerings, which presumably consisted of "long supply" merchandise, had a recovery rate considerably higher than the average recovery rate on all offerings. If prices had been set to realize a lower recovery rate, a greater percentage of these offerings would probably have sold.

In the matter of pricing, it should be recalled that in past months Region V has generally realized a substantially higher recovery rate on its sales of industrial equipment, which comprises 30% of its total inventory, than have other regions. But at the same time, this region has sold its industrial equipment at a much slower rate than have other regions. Again, if prices on this equipment in Region V had been set to realize a somewhat lower recovery rate, more of this equipment would probably have sold.

Both the low level of offerings and the slow rate of sale on outstanding offerings in recent months may also be attributed in part to the substantial reorganization of the regional office and to the rechecking of property records. The creation of the Office of Stock Control and the switch in emphasis to the location method of selling were the major changes made under this reorganization. Tangible results in the form of increased sales should materialize in future months as the progress made under this reorganization is transmitted to the operating levels of the regional office.

Personnel

Regional personnel on October 31 numbered 2,437, the lowest level reached in the last 18 months. The reduction realized in recent months has been entirely in the "Regular employee" classification, employees in this classification on October 31 being 45% fewer than in the peak month, June 1947. "Schedule A" employment has shown no consistent trend and is now roughly equal to that of 6 months ago.

Since the first of the year the region has lost each month one working day per employee through sick leave plus an additional working day per employee through annual leave. Also, since the first of the

year, sick leave taken has, in total, approximately equaled sick-leave earned in this period. Many employees, however, took more sick leave in the January-October period than they actually earned. In doing this, they drew upon sick leave earned, but not taken, in government employment prior to 1947. About 60% of the annual leave earned in the January-October period was taken prior to November 1.

Income & Expense

Table 2
Income & Expense
October 1947

	Millions of $
Total Income	
Capital & Consumer Goods Sales	$1.91
Real Property Sales	2.63
Rents & Interest	0.76
Total	$5.30
Total Expense	
Salaries & Wages	$0.93
Rents & Utilities	0.09
Plant Clearance	0.07
Protection & Maintenance of Property	0.06
Supplies & Materials	0.05
Reimbursements to Owning Agencies	0.04
Warehouse Operation Costs	0.04
Broker-Dealer Agreements	0.03
Miscellaneous Contractual Services	0.03
Other	0.04
Total	$1.38
Excess of Income over Expense	$3.92

Regional net income in October ($3.92 million) was the highest in the last 6 months. A substantial increase in real property income accounted primarily for this increase in total net income. Income from consumer and capital goods sales ($1.91 million) was unchanged from September. However, sales of consumer and capital goods at discount, donations, and transfers without reimbursement to priority groups were made at a sacrifice of $0.69 million in regional income. These transactions, involving goods with a market value of $0.77 million, realized an income of only $0.08 million. If this property had been sold to commercial buyers, regional income from consumer and capital goods sales in October would have been increased by $0.69 million.

Regional expenses in October ($1.38 million) declined 24% as compared with September. Most items of expense declined, but the largest relative reductions were in printing and binding expense, warehouse operation costs, protection & maintenance of property, and rents & utilities.

Income from consumer and capital goods sales declined 23% in the 3 months, May-July, as compared with the 3 months, February-April, in spite of the fact that sales at acquisition costs were 21% higher in the May-July period. The decline in income was due to a much lower recovery rate on sales in the May-July period. Income again declined (by 58%) in the 3 months, August-October, as compared with the 3 months, May-July, notwithstanding the fact that the recovery rate on sales was higher in the August-October period. In this case, the decline in income was due to sharply reduced sales at acquisition costs in the August-October period.

Region V's present consumer and capital goods inventory, when sold, may realize an income of $27 million. This estimate assumes that 25% of future disposals will be made without reimbursement and that the region will realize an average recovery rate of 15% on future sales, which is approximately equal to the recovery rate of each of the last 4 months.

Claims

Region V reduced the number of unsettled customer claims from 725 on September 30 to 654 on October 31. The greatest progress was made in reducing the backlog of older claims, that is, claims on hand for more than 60 days. October was the eighth consecutive month in which the region has reduced its total backlog of unsettled claims.

However, the number of over-paid customer accounts pending on October 31 increased to 754 as compared with 532 on September 30. This increase was due to the fact that more than 2-1/2 times as many new cases involving customer over-payments originated in October as in September. The region closed out 402 over-paid accounts in October vs. 299 in September and 181 in August.

Region V has a generally better record on unsettled claims than have other regions:

(1) Relative to sales in recent months, Region V had fewer unsettled claims on October 1 than did 4 of the other 5 regions in Zone 3. Also, relative to sales in recent months, Region V had fewer unsettled claims on October 1 than did 7 of the other 9 large WAA regions.

(2) Between July 1 and October 1, Region V achieved a larger relative reduction in unsettled claims than did 4 of the other 5 regions in Zone 3.

(3) On October 1 "older" claims comprised a smaller percentage of Region V's total claims than was the case in 6 of the other 9 large WAA regions.

Outlook for Region V

The market for machine tools and industrial equipment continues to hold top interest since approximately 75% of Region V's total inventory consists of such machinery. The market for new machinery continues very good, but the market for used machinery is expected over the next several months to stabilize at the low level reached in recent months. In other words, purchases of used machinery will likely continue at a rate 70% below the 1946 level. The significance of this condition is that Region V cannot depend upon an improving market to increase its machinery sales over the record low level of recent months. Any increase in regional sales will have to come: (1) from making inroads on the markets of other WAA regions or on the markets of private used-equipment dealers, and (2) from encouraging business firms to buy used machinery from Region V rather than new machinery from private manufacturers.

The possibilities of making inroads on the new-equipment market are potentially great because the new-equipment market is 40 times larger than the total used-equipment market. But, as each month passes, the chances grow slimer of persuading business firms to buy used instead of new equipment. In the past, the leading incentive for business firms to purchase surplus machinery has been the fact that surplus machinery has been available for immediate delivery whereas a wait of many months was required before new machinery could be secured. Most types of new machinery still cannot be secured without a wait of several months, but this waiting period is steadily declining. Machine-tool manufacturers, for instance, have reduced their backlog of orders 25% since the first of the year. Hence, substantial price reductions and other inducements will probably be necessary if private industry is to buy increasing quantities of surplus machinery. The Fourth Operational Program, issued by the Washington office several months ago, authorizes and directs the regions to make price and other concessions in order to speed the sale of surplus machinery.

Considerable quantities of the remaining consumers-goods inventory may be withdrawn by the War Department for export to Europe for relief purposes. According to a Washington WAA report, negotiations for this

program are now in process. Region V's present consumer-goods inventory approximates $40 million, 15% of which consists of property likely to be selected for withdrawal if the War Department's export program materializes.

As time passes, conditions in the scrap metal market will become increasingly important to regional disposal plans since larger quantities of specialized and poor-condition equipment will be offered for sale as scrap metal. The prospects for the sale of iron and steel scrap appear good, at least, for the next several months. The volume of trading in this market continued light in October, as it did in September, with large users refusing to buy in an effort to force scrap prices down. Except for brief periods, this effort is unlikely to have much success. Last spring, a similar effort by scrap users to force prices down by temporarily refusing to buy met with failure, and scrap prices subsequently rose to an all-time high. Moreover, within the next 30 days, Congress will very likely pass a $500 million European relief plan to be followed several months later by the large-scale Marshall aid program. Under this program, 1.4 million tons of scrap is scheduled for export to Europe in 1948. The inevitable effect of this program will be to drive scrap prices in this country to new peak levels. Consequently, Region V should experience no trouble in disposing of iron and steel scrap over the next several months.

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